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ABSTRACT

The Rehabilitation Act of 1973 authorizes different federal funding rates for state construction and establishment of rehabilitation facilities for the handicapped. Federal regulations and guidelines contain overlapping criteria for determining the eligibility for funding projects with similar activities and goals. This report discusses problems with using rehabilitation program funds for constructing or establishing rehabilitation facilities. It also describes what the Department of Health, Education, and Welfare and the Congress should do to strengthen the administration of construction and establishment funding by state rehabilitation agencies and local rehabilitation facilities. Agencies in Alabama, Florida, Kansas, and Michigan were included in this review. Examined were (1) states' systems for planning rehabilitation facility improvement, (2) procedures for budgeting basic program funds for establishment or construction activities, (3) procedures for controlling federal and state expenditures, and (4) procedures for monitoring the activities of organizations that received federal funds to establish or construct facilities. (Author/MLF)

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ED175156

BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

AUG 31 1979

A Single Federal Authority Is Needed For Establishing Or Constructing Rehabilitation Facilities

The Rehabilitation Act of 1973 authorizes different Federal funding rates for State construction and establishment of rehabilitation facilities for the handicapped. Federal regulations and guidelines contain overlapping criteria for determining the eligibility for funding projects with similar activities and goals.

State agencies GAO reviewed either stretched or ignored these guidelines in order to approve projects and enable them to obtain increased Federal funding.

GAO recommends that the Congress amend the Rehabilitation Act of 1973 to create a single Federal authority and uniform matching requirements for State rehabilitation construction and establishment projects.

U S DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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UNITED STATES GENERAL ACCOUNTING OFFICE

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HRD-79-84
AUGUST 23, 1979

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-164031(3)

To the President of the Senate and the
Speaker of the House of Representatives

The vocational rehabilitation program administered by the Rehabilitation Services Administration, Department of Health, Education, and Welfare, is to prepare the handicapped for employment. This report discusses problems with using rehabilitation program funds for constructing or establishing rehabilitation facilities. It also describes what the Department and the Congress should do to strengthen the administration of construction and establishment funding by State rehabilitation agencies and local rehabilitation facilities.

Our review was made because of (1) increasing congressional and public interest in the administration of State and Federal programs that provide rehabilitation program services to the handicapped and (2) sizable program funding for such services.

We are sending copies of this report to the Director, Office of Management and Budget, and the Secretary of Health, Education, and Welfare.

Comptroller General
of the United States

COMPTROLLER GENERAL'S
REPORT TO THE CONGRESS

A SINGLE FEDERAL AUTHORITY IS NEEDED FOR ESTABLISHING OR CONSTRUCTING REHABILITATION FACILITIES

D I G E S T

Federal funding to States for establishing or constructing rehabilitation facilities to prepare handicapped individuals for employment is determined by separate Department of Health, Education, and Welfare (HEW) regulations and guidelines and by the Rehabilitation Act of 1973. Overlapping criteria have resulted in problems and inconsistencies with project funding.

Although the Rehabilitation Services Administration has issued policy interpretations for issues raised by State agencies, officials are not always aware of all of them since they are not routinely distributed.

The Rehabilitation Act provides for using the Hill-Burton formula for determining the Federal share under the construction authority--33 to 67 percent--and a standard 80 percent for establishment projects. GAO found that State agencies stretched or ignored guidelines to approve projects for establishment funding, thus enabling them to obtain increased Federal funding.

State administration of projects involving staffing under establishment funding would be strengthened by gradually reducing Federal funding over the project's life. (The Federal share must remain at 80 percent under present Federal requirements.) This would accustom the facility to assuming more costs and total responsibility when Federal funding is no longer available.

The 1973 act also restricts the total amount of Federal funding for constructing rehabilitation facilities--not over 10 percent of the States' annual allotment for vocational rehabilitation. This is intended

to limit rehabilitation funds for any activity other than payments for services to handicapped individuals. However, because the establishment funding has been extensively used in lieu of the construction funding, the funding provision has not achieved its general purpose.

STATES' ADMINISTRATION NEEDS IMPROVEMENT

The State rehabilitation agencies reviewed had not developed effective administrative procedures for controlling funds for establishing or constructing rehabilitation facilities. For example, they had not:

--Established adequate monitoring procedures for project activities. (See p. 46.)

--Always maintained adequate records of awards or expenditures. (See p. 48.)

--Required facilities to develop and maintain adequate accounting systems and records on grant activities. (See p. 48.)

The lack of adequate fiscal controls by some State agencies has sometimes resulted in:

--Expenditures for establishment and construction activities not being accurately reported to the Rehabilitation Services Administration. (See p. 42.)

--Improper or questionable grant expenditures being made by rehabilitation facilities. (See p. 46.)

Most of the State agencies reviewed often awarded grants as near to the end of a fiscal year as possible, in order to obligate funds that would not be used for other vocational rehabilitation purposes. In several instances, State agencies had reported the obligation of funds in one fiscal year even though the agencies did not approve the project proposals or award the project grants until the following

fiscal year. (See p. 51.) Also, several grants that were awarded near the end of a fiscal year experienced delays (from 1 to 5 years) between the project's approval and its initiation. (See p. 53.)

RECOMMENDATIONS TO THE CONGRESS

The Congress should amend the 1973 act to create a single Federal authority for authorizing the States' use of basic program funds to

--construct new buildings;

--acquire, expand, remodel, alter, or renovate buildings;

--acquire equipment; and

--pay for rehabilitation facility staff. (See p. 33.)

The Congress should also maintain the provision in the 1973 act that requires the Hill-Burton formula for determining the Federal share for construction activities (excluding staffing) in order to make the Federal share requirements consistent for construction under the Rehabilitation Act of 1973 and the Hill-Burton program. (See p. 33.) The term "Federal share" should be amended to make the Federal funding rate for staffing under title I consistent with staffing rates under title III of the 1973 act. (See p. 33.)

If the Congress decides to maintain the separate funding authorities in the 1973 act, GAO recommends that the act's present restriction for construction (limiting Federal funding to 10 percent of the State's annual Federal funding for the vocational rehabilitation program) be revised to limit activities under both the construction and establishment authorities to 10 percent of a State's annual allotment. (See p. 33.)

RECOMMENDATIONS TO THE SECRETARY OF HEW

The Secretary of HEW should direct the Commissioner of the Rehabilitation Services Administration to:

--Review the expenditures for establishment and construction and make every reasonable effort to recover from State rehabilitation agencies Federal funding which did not clearly comply with Federal regulations and program requirements. (See p. 33.)

--Establish a systematic process to assure that all Federal policy interpretations of Federal regulations or guidelines are forwarded to and maintained by each Rehabilitation Services Administration regional office and State agency in a timely manner. (See p. 34.)

--Require the Rehabilitation Services Administration regional staff to provide guidance and leadership to State rehabilitation agencies so that States implement adequate procedures and controls to administer establishment and construction projects. (See p. 55.)

--Require the regional staff to periodically monitor the adequacy of State agencies' procedures and practices, to assure the proper use and control of basic program funds for establishment and construction activities. (See p. 56.)

Pending consideration of GAO's recommendation to the Congress that a single authority be developed, the Commissioner should revise the Federal regulations and program guidelines to

--provide detailed instructions to State vocational rehabilitation agencies to help them implement the changes in the construction and establishment authorities made by the 1973 act, as amended, and

--identify and clearly differentiate between the types of activities eligible for funding under each authority. (See p. 34.)

NO FORMAL RESPONSE FROM HEW

HEW did not respond in writing to GAO's request for comments on this report. HEW decided instead to provide oral comments through Rehabilitation Services Administration representatives. They generally agreed with GAO's recommendations to the Secretary of HEW, and the Rehabilitation Services Administration's planned or proposed actions are responsive toward implementing them. (See pp. 36 and 56.)

Two of the four State agencies generally agreed with GAO's recommendations to the Congress. One of the two States did not support using the Hill-Burton rate for determining the Federal share under a single funding authority; rather, the State agency suggested that a uniform 80-percent Federal share should be used.

The other two State agencies did not agree that the separate funding authorities for establishing and constructing rehabilitation facilities should be eliminated or that the funding for establishment should be included under the present 10-percent restriction for construction.

All four State agencies agreed that the Federal funding rate for staffing under title I and title III of the 1973 act should be consistent.

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ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
RSA	Rehabilitation Services Administration

CHAPTER 1

INTRODUCTION

The vocational rehabilitation program, established by the Smith-Fess Act, June 2, 1920 (41 Stat. 735), is to prepare the handicapped for employment. The program was established as a Federal-State partnership; Federal funds finance part of the States' rehabilitation services. The Federal Government also provides leadership and resources, while the States administer the program.

The rehabilitation program initially provided training, counseling, and placement services for the physically handicapped. However, subsequent laws broadened the program to include persons with mental disabilities. Services have also been expanded to include a broad range of diagnostic evaluation and related activities, counseling, training and training supplies, medical consultation and treatment, physical restoration devices, occupational licenses, tools, equipment, and job placement.

State funding has also been broadened, so that grants are now available for (1) research and demonstration, (2) planning and conducting training and related activities to increase the number of trained rehabilitation personnel, and (3) constructing or expanding rehabilitation facilities.

PROGRAM ADMINISTRATION

The Rehabilitation Services Administration (RSA), Office of Human Development Services, Department of Health, Education, and Welfare (HEW), manages the program at the Federal level. Each fiscal year, States must submit a vocational rehabilitation services plan for approval by RSA. Each State is to designate an agency or to supervise the administration through local agencies or district offices. Eighty-two agencies have been designated for administering the vocational rehabilitation program in the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, Guam, and the Trust Territory of the Pacific Islands. In 28 States and territories, a single agency administers the vocational rehabilitation programs for people with all types of disabilities, including the blind; while 27 States have separate agencies for the generally handicapped and also for the blind.

PROGRAM FUNDING

Vocational rehabilitation activities are provided under several different arrangements; most provide direct services to the handicapped. These activities, which account for most of the expenditures, are generally referred to as the basic program.

Under the basic program, Federal funds are apportioned among the States on the basis of population and per-capita income. Initially, Federal and State governments shared costs equally; however, the Federal Government now pays 80 percent of the States' basic program costs for all activities except construction, for which it pays according to the Hill-Burton formula.

From the beginning of the program in 1920 through fiscal year 1977, the Federal share of basic support costs has totaled about $6.6 billion; about 50 percent of this total was spent in the last 5 years. State and Federal costs for basic support services for fiscal years 1973-77 are:

Fiscal year	State share	Federal share	Total cost
	(millions)		
1973	$157.3	$572.3	$729.6
1974	173.8	635.8	809.6
1975	195.7	673.1	868.8
1976	197.7	699.8	897.5
1977	222.9	732.7	955.6

THE DEVELOPMENT OF REHABILITATION FACILITIES

State rehabilitation agencies provide a substantial part of services through their own, other public, and private rehabilitation facilities (such as rehabilitation centers and workshops). Federal funding for the basic rehabilitation program may be used for establishing or constructing public or nonprofit rehabilitation facilities to provide rehabilitation services or employment to the handicapped; this is to encourage or give impetus to developing new and needed facilities in a State, or to extend the scope or capacity of existing facilities.

The Rehabilitation Act of 1973 (29 U.S.C. 701), as amended, defines the following types of establishment and construction activities which may be funded by the basic program. Throughout this report, the terms "establishment" and "construction" refer to these types of activities:

--Establishment of a rehabilitation facility may include (1) the acquisition, expansion, remodeling, or alteration of existing buildings to adapt them to rehabilitation facility purposes or to increase their effectiveness for rehabilitation facility purposes, (2) the acquisition of equipment for such buildings, and (3) the staffing of a rehabilitation facility.

--Construction of a rehabilitation facility may include (1) the construction of new buildings, the acquisition of existing buildings, or the expansion, remodeling, alteration, or renovation of existing buildings which are to be used for rehabilitation facility purposes and (2) the acquisition of initial equipment for such buildings.

Under the construction authority, the Federal share of the cost of constructing a rehabilitation facility, including initial equipment, is governed by the Hill-Burton program. Specifically, the Federal share is based on the Federal share percentage applicable to rehabilitation facilities built in the same locality within the State using Hill-Burton aid. The Hill-Burton program, authorized by the Public Health Service Act, as amended, provides grants, loans, and loan guarantees to construct or modernize facilities which will provide space for the medical rehabilitation of handicapped individuals. The Federal share ranges from 33 to 67 percent.

During fiscal years 1974 through 1977, 67 of the 82 rehabilitation agencies included expenditures for establishing or constructing rehabilitation facilities in their annual reports on the basic program submitted to RSA. The basic program funds spent by a State agency from 1974 to 1977 to establish or construct rehabilitation facilities ranged from $3,310 to $7.5 million in any one year. The following table shows the Federal and non-Federal rehabilitation program expenditures reported for establishment and construction activities for fiscal years 1974-77:

Fiscal year	Expenditures: Establishment authority	Expenditures: Construction authority	Total
	(millions)		
1974	$ 55.7	$ 8.3	$ 64.0
1975	30.3	3.6	33.9
1976	21.2	.8	22.0
1977	31.8	1.4	33.2
Total	$139.0	$14.1	$153.1

The four State agencies included in our review--in Alabama, Florida, Kansas, and Michigan--accounted for $25.7 million of the $153.1 million reported for establishment and construction for fiscal years 1974-77. Although Florida, Kansas, and Michigan had separate agencies for the blind, we did not review the administration of establishment and construction grants at these agencies. The following table shows the Federal and State funds spent for fiscal years 1974-77 by the four State agencies under the construction and establishment authorities:

	Expenditures: Establishment authority	Expenditures: Construction authority	Total
	(millions)		
Alabama	$ 3.7	$ -	$ 3.7
Florida	7.4	1.1	8.5
Kansas	2.9	.9	3.8
Michigan	9.6	.1	9.7
Total	$23.6	$2.1	$25.7

SCOPE OF REVIEW

We evaluated Federal and State administration of the establishment and construction activities that were funded under the basic rehabilitation program. We examined the (1) States' systems for planning rehabilitation facility improvement, (2) procedures for budgeting basic program funds for establishment or construction activities, (3) procedures for controlling Federal and State expenditures, and (4) procedures for monitoring the activities of organizations which received Federal funds to establish or construct facilities.

We reviewed Federal and State legislation concerning the vocational rehabilitation program, Federal regulations, and RSA policies and procedures for administering and operating the vocational rehabilitation program. We also analyzed selected rehabilitation facility establishment and construction activities in Alabama, Florida, Kansas, and Michigan.

We reviewed establishment and construction activities at RSA headquarters in Washington, D.C.; HEW regional offices in Atlanta (region IV), Chicago (region V), and Kansas City (region VII); State rehabilitation agencies; and 42 public and nonprofit rehabilitation facilities in the four selected States. We also discussed our work with HEW internal auditors.

In our review, our efforts were primarily directed toward activities for fiscal years 1974-77. During that period, 41 of the 42 facilities had received $14.7 million of the $25.7 million in basic rehabilitation program funds awarded for establishment and construction activities. We also visited one project in Florida which was approved at a cost of $1.4 million before fiscal year 1974 but which had not spent any funds as of that date. We visited 41 facilities which had received establishment or construction funds--11 in Alabama, 10 in Kansas, 11 of 46 in Florida, and 9 of 68 in Michigan.

Our primary goal was to achieve a representative sample of projects for each State based on size, geographical location, and type of activity. For the facilities selected, we reviewed the project proposals, award documents, and budget information, and talked with vocational rehabilitation and facility personnel.

We did our fieldwork between February and September 1978. Our findings were discussed with State and Federal officials, and their comments were considered in preparing this report.

CHAPTER 2

THE OVERLAP IN REQUIREMENTS FOR ESTABLISHMENT AND CONSTRUCTION ACTIVITIES NEEDS TO BE ELIMINATED

The legislative authority for construction and establishment activities allows State rehabilitation agencies to approve many types of vocational rehabilitation facility projects. RSA's regulations and guidelines are general and contain overlapping criteria for establishment and construction projects. Many projects with similar activities, goals, and objectives may be funded under either authority.

Although Federal guidelines highlight numerous restrictions for using the establishment authority, we found that the four State rehabilitation agencies reviewed stretched or ignored the guidelines to approve projects for establishment funding, thus enabling them to obtain increased Federal funding.

The four States have approved and funded, under the establishment authority, projects for rehabilitation facilities which, in many cases, did not meet the requirements and/or intent of Federal regulations and guidelines for establishment activities. In those cases, the project proposals could have been approved under the construction authority. In this regard, we believe that the types of activity, scope of work, or total expenditures for establishment projects were comparable in many respects to construction projects.

We also believe that the four States' administration of projects that provide funds for paying salaries of staff operating rehabilitation facilities would be strengthened by gradually reducing Federal funding over the project's life to accustom the facility to assuming total responsibility for the project when Federal funding is no longer available.

FEDERAL LEGISLATION DOES NOT ADEQUATELY DISTINGUISH BETWEEN ESTABLISHMENT AND CONSTRUCTION

Before the Vocational Rehabilitation Amendments of 1968, State rehabilitation agencies were authorized to use basic rehabilitation funds for the establishment, but not construction (as now defined) of a rehabilitation facility.

The establishment authority allowed State rehabilitation agencies to use funds to expand, alter, or remodel existing buildings; purchase initial equipment; and pay for initial staffing for up to 1 year.

The 1968 amendments expanded the State agencies' flexibility to use basic program funds by adding an authority to construct rehabilitation facilities. The new authority provided funding for the construction of buildings, the acquisition of existing buildings, the purchase of initial equipment for the newly constructed or acquired buildings, and the cost of initial staffing for up to 4 years and 3 months. The period for initial staffing under the establishment authority was also increased from 1 year to 4 years and 3 months by the 1968 amendments.

The amendments also required that an applicant's matching share under the new construction authority be the same as the matching rates for the Hill-Burton hospital construction program. The following table shows the percentage of construction cost to be paid from Federal and non-Federal sources under the Hill-Burton formula for the four States reviewed.

State	Federal share	Non-Federal share
Alabama	60%	40%
Florida	50	50
Kansas	40	60
Michigan	50	50

The Federal share for establishment remained the same as for expenditures under the basic rehabilitation program, which was increased by the amendments to 80 percent.

The Rehabilitation Act of 1973 revised the establishment authority to include the acquisition of existing buildings and revised the construction authority to include remodeling, expanding, altering, and renovating an existing building and to exclude the cost of initial staffing under the basic program. However, the establishment authority continued initial staffing as an eligible activity.

The following table highlights the major activities for establishment and construction as defined by the 1973 act. (See p. 3 for actual definitions.)

	Provided for under construction authority	Provided for under establishment authority
Existing building:		
Acquisition	Yes	Yes
Alteration	Yes	Yes
Expansion	Yes	Yes
Renovation/remodeling	Yes	Yes
New building:		
Construction	Yes	No
Equipment:		
Acquisition	Yes	Yes
Staffing	No	Yes

Also, the 1973 act restricts the use of basic program funds for construction to not more than 10 percent of a State's allotment for a given fiscal year. The restriction was specified in the legislation because the primary purpose for basic program funds is to help pay for services to the handicapped. No ceiling has been set on the amount of basic program funds that can be used for establishment activities.

The Rehabilitation, Comprehensive Services, and Developmental Disabilities Amendments of 1978 (Public Law 95-602; Nov. 6, 1978) revised the establishment authority to include additional equipment and staffing as the Commissioner of RSA considers appropriate in lieu of restricting the funding for only initial equipment and staffing for rehabilitation facilities.

FEDERAL GUIDELINES DO NOT PROVIDE ADEQUATE CRITERIA FOR USING ESTABLISHMENT AND CONSTRUCTION AUTHORITIES

Although RSA has issued separate Federal regulations and program guidelines for establishment and construction, the guidelines have not been revised since the 1973 act and the criteria for determining project eligibility under the two authorities is general and, in many instances, overlapping.

Federal guidelines have not been revised since the 1973 act

RSA amended its Federal regulations on October 17, 1969, to recognize the changes brought about by the 1968 amendments. To implement the 1968 amendments, RSA issued new, separate guidelines for construction on October 26, 1970, and revised

program guidelines for establishment on February 11, 1971. According to RSA officials, the apparent need for the separate guidelines and Federal requirements in the regulations stemmed from the different Federal matching criteria mandated by the legislation.

RSA issued interim Federal regulations on January 3, 1974, and final regulations on December 5, 1974, covering rehabilitation programs and activities, including establishing and constructing facilities authorized by the 1973 act. In publishing the final regulations, RSA stated in the Federal Register that guidelines would be issued later to provide the additional information and technical assistance necessary for assuring full implementation of rehabilitation programs (including establishment and construction activities), in conformity with the 1973 act and the regulations. However, as of June 1979, RSA had not issued new guidelines for establishment and construction activities, nor had the guidelines issued in February 1971 and October 1970 been revised or updated.

RSA has, from time to time, issued policy interpretations relating to specific issues on establishment and construction raised by the State agencies or the regional offices. In replying to a question raised by a State agency, an RSA regional director stated in a September 1, 1977, letter that, when Federal regulations in response to the 1973 act and the existing program guidelines disagreed, the Federal regulations superseded the guidelines. RSA headquarters officials stated that the policy interpretations are sent to each regional office. During visits to the three regional offices, we found that the regional staff did not maintain current files on the policy interpretations received for establishment and construction. Also, officials of the State rehabilitation agencies reviewed said that they were not always aware of all RSA policy interpretations.

Differences between establishment and construction requirements are not clear

The two authorities allow State rehabilitation agencies to approve many types of establishment or construction projects. The possible combinations of facility improvements included in a proposal are innumerable and involve a wide variety of circumstances. RSA regulations and guidelines are general and contain overlapping criteria to determine eligibility for funding construction and establishment facility projects.

Under the Federal criteria, many projects with similar activities, goals, and objectives may be funded under either authority. For example, the Federal regulations provide that funds may be used under the construction authority for the construction of new buildings; the acquisition, expansion, remodeling, or alteration of existing buildings; and the purchase of initial equipment. According to RSA guidelines, construction differs from establishment in that the construction authority provides for new construction, whereas the establishment authority does not. The establishment authority is restricted to the expansion, remodeling, or alteration of existing buildings. Thus, the expansion, remodeling, or alteration of existing buildings may be done under either authority. However, the guidelines state that the expansion of an existing building should be approved under the construction authority when the expansion is extensive enough to be tantamount to new construction. The establishment authority also permits the acquisition of an existing building if the total cost does not exceed $200,000; the construction authority permits a higher acquisition price.

To assist State agencies with determining the correct funding authority, the guidelines provide the following requirements for determining a project's eligibility for establishment funding:

--An existing building has been completed in all respects.

--The method of joining the expanded portion to the existing building raises no question that a separate structure is involved.

--The total size of the expanded building, determined in square footage of usable space, does not exceed twice the size of the original building.

If the proposed project does not meet all of the above requirements, it is not eligible for Federal funding under the establishment authority. Projects not meeting the above criteria for funding under the establishment authority may be approved under the construction authority if the construction criteria are met. The guidelines also provide that the State agency should evaluate establishment proposals in light of the above requirements and other suggested criteria, including:

--The existing building is not less than 1 year old at the time the expansion, remodeling, or alteration begins.

--The estimated total cost of the expansion (from all sources) does not exceed the value of the existing building.

We developed the following two examples to show the types of situations which may occur under the two sets of Federal guidelines, assuming that all other criteria are met.

Square footage--A rehabilitation facility which has an existing structure with 20,000 square feet of usable space may add a new wing with 19,000 square feet under the establishment authority (the 20-percent non-Federal share), while a facility which has an existing structure of 8,000 square feet which desires to expand its facility by 8,500 square feet would be required to use the construction authority with a non-Federal share from 33 to 67 percent, depending on the Hill-Burton rate for the particular area.

Cost--A facility's proposal to purchase an existing building for $195,000 may be approved under the establishment authority (the 20-percent non-Federal share), while a facility which desired to build a comparable building for $195,000 would be required to use the construction authority with a higher non-Federal share, based on the Hill-Burton rate for the particular area.

The four State agencies reviewed have made liberal interpretations of the above requirements for the establishment authority. The agencies reported expenditures of $25.7 million under the establishment and construction authorities for fiscal years 1974-77. The agencies used about $12.1 million of the $25.7 million for expansion, remodeling, aquisition, and construction, and they approved only $2.1 million under the construction authority--as opposed to almost $10 million under the establishment authority. We believe that the type of activity, scope of work, or total expenditures for projects financed under the establishment authority are comparable in many respects to projects funded under the construction authority.

The following table shows the Federal funds reported as expenditures under the establishment authority for the four States reviewed during fiscal years 1974-77 and the Federal funds which would have been required if the projects had been approved under the construction authority:

	Federal funds reported under establishment authority	Federal funds required if approved under construction authority	Difference
State:			
Alabama	$2,625,600	$1,969,200	($ 656,400)
Florida	1,547,544	967,215	(580,329)
Kansas	505,125	252,562	(252,563)
Michigan	3,300,141	2,062,588	(1,237,553)
Total Federal share	7,978,410	5,251,565	(2,726,845)
Add: Non-Federal share	1,994,602	4,721,447	2,726,845
Total	$9,973,012	$9,973,012	$ 0

In many instances, the States' use of the establishment authority in lieu of the construction authority resulted in the approval of projects under the establishment authority which we believe did not meet one or more of the above requirements or the intent of the Federal regulations or RSA guidelines for funding establishment activities. In all of these cases, the project proposals could have been approved by the State rehabilitation agency under the construction authority.

CONSTRUCTION METHODS USED DO NOT APPEAR APPROPRIATE FOR ELIGIBILITY OF PROJECTS UNDER THE ESTABLISHMENT AUTHORITY

RSA guidelines provide that the expansion of an existing building must meet the following requirements under the establishment authority:

1. The method of joining the expanded portion to the existing building should not raise a question as to whether a separate structure is being constructed.

2. The total size of the expanded building, determined in square footage of usable space, should not exceed twice the size of the original existing building.

The guidelines state that:

> "The method of joining the expanded portion to the existing building should be such that the expanded portion and the previously existing building together constitute one building. This principle would exclude the joining of the addition to the existing building merely by covered walks or cat-walks which serve as corridors or by breezeways."

It appears that the construction methods used for two projects in Alabama and Michigan resulted in the construction of separate structures. We also believe that other aspects of the projects, including the total square footage involved in the Alabama project and ownership of the existing building for the Michigan project, indicate that the projects were not eligible for funding under the establishment authority.

Alabama

In fiscal year 1977 the Alabama rehabilitation agency approved a project for expanding a facility's existing building to include a warehouse and retail store at a cost of $416,250. Under the funding arrangement developed by the State rehabilitation agency, the agency provided $281,000 in basic program funds and the facility provided $135,250 to expand the existing building.

The expansion added over 29,000 square feet to the existing building, which previously had 23,300 square feet. While a State rehabilitation official acknowledged that this expansion more than doubled the facility's usable square footage, he said that the expansion involved two separate projects. He told us that the establishment award involved only one of these projects (the construction of the retail store) and that the facility financed the construction of the warehouse. Therefore, he concluded that the State agency had not violated the Federal regulations.

However, our discussions with facility officials and our review of project records raised considerable doubt about the propriety of this award under the establishment authority. The facility director told us in June 1978 that it was his understanding that the warehouse and retail store were one establishment project, and the funds provided by the facility were for the entire project and not solely for warehouse construction. As such, the facility awarded a single construction contract which did not separate the costs of the retail store and warehouse. Finally, in transmitting the project proposal to the RSA regional office for review, project records show that the State agency included the total cost of construction for the warehouse and the retail store as a single project financed under the establishment authority with State and Federal rehabilitation funds.

We also believe that the method of joining the warehouse and retail store to the existing building raises a question as to whether a separate building was constructed. For this project, the warehouse and retail store were joined to the existing building by a corridor which runs between a portion of the expanded and existing structure. This corridor was an outside sidewalk before the expanded area was constructed. To join the two structures, one wall of the expanded structure was placed near the outer edge of this sidewalk, and a roof was extended over this area. The addition and the existing structure do not share a common wall.

When we questioned the State rehabilitation official concerning this point, he told us that the State agency was not aware that the structures were joined in this manner and that the architectural drawings which the State agency approved did not show that the structures were to be joined in this manner. The facility director stated that three sets of architectural drawings were prepared for this project, and he was not certain which set the State agency approved.

Michigan

In fiscal year 1974, the Michigan rehabilitation agency approved a $200,000 project under the establishment authority to expand by 10,000 square feet an existing building having about 15,600 square feet. The Michigan agency approved an additional $156,000 in fiscal year 1975 to complete the expansion project. We believe that the way the expansion was attached to the existing building suggests that the addition should more properly have been approved under the construction authority.

The organization's new space was connected to a local intermediate school district's learning center by a single hallway which partly extended the width of each building. During our visit to the facility, we found that the two buildings had separate heating systems and the recipient of the expansion grant no longer occupied space in the original building.

RSA guidelines state that the space used in the original building should continue to be used for rehabilitation after the existing building is expanded. The guidelines state that this principle generally precludes abandoning of the space in the original building because the addition is to expand usable space, not substitute for existing space.

According to a rehabilitation agency official, the organization which received the establishment grant rented space in the existing building before the grant award. The official stated that, although the grant recipient did not (and still does not) own the original building, the award could be considered an establishment activity because the original building was used by its owner for "quasi" rehabilitation purposes for handicapped children (a handicapped population not generally considered a target group for vocational rehabilitation services), and the expansion did not double the size of the original building.

We believe that an award of establishment funds to one party to expand a building that was owned by a second party does not comply with RSA guidelines--that basic program funds under the establishment authority should be used to expand, and not replace, a grant recipient's existing space.

ESTABLISHMENT FUNDS WERE USED FOR A NEW BUILDING

Although Federal regulations permit the acquisition of an existing building under the establishment authority if the building costs no more than $200,000, the guidelines state that Federal financial participation is not available under the establishment authority to construct a new building to be used as a rehabilitation facility. The establishment authority provides only for the expansion, remodeling, or alteration of an existing building. The Michigan and Florida rehabilitation agencies approved two projects at a total cost of $345,000 which we believe did not meet the above eligibility requirements for establishment funding.

Michigan

During fiscal year 1974 the Michigan rehabilitation agency approved a $200,000 project for the acquisition of a building with about 13,000 square feet of floor space. In the initial planning of the building, the facility decided that the cost of construction would require a total budget of $255,000. A preliminary budget proposal was developed, assuming the facility would pay $5,000 and the remainder would be financed by county ($125,000) and Federal funds, using the Hill-Burton matching rate of 50-percent Federal funding ($125,000).

However, in a March 19, 1974, meeting of the facility's board of directors to discuss the building proposal, one board member indicated that there would not be a problem with constructing a building to meet the facility's specifications but that there would be a problem with getting the money. A facility staff member stated that the State rehabilitation agency had made a verbal commitment to supply the funds to purchase a building costing up to $200,000 at an 80/20 matching rate. The minutes of the meeting state that the board concluded that a block-type building with a steel frame would be most suitable and that the proposal would be developed on that basis. After this discussion, the minutes state:

> "We will not be able to build the building ourselves and still obtain the 80 percent funding from Vocational Rehabilitation. This is only acquisition money. The net effect of this is that someone else will need to build the building with a firm commitment from us that we will buy the building when it is ready. In order to do this, of course, it will be necessary for us to obtain the same type of commitment from Vocational Rehabilitation that they will participate in the funding."

The discussion about the new building ended with the decision by the board to authorize the purchase of a building at a cost of up to $200,000 with a written commitment from the State rehabilitation agency that the agency would participate at the 80-percent funding level.

The rehabilitation facility submitted a proposal to purchase a new building at a total cost of $200,000 to the State rehabilitation agency on April 30, 1974. The State agency approved the proposal. On May 7, 1975, the facility

submitted a final expenditure report to the State agency showing that it had acquired a new cement block building for $200,000. The expenditure report detailed 35 payments to 5 construction, engineering, heating, electric, and security firms, accounting for the expenditure of $200,000 from October 22, 1973, to May 7, 1975. In essence, it appears that the building which was "acquired" by the facility was constructed during this time period. Further, the State rehabilitation official responsible for administering this project stated that the actual value of the facility's new building was in excess of $200,000 and that the facility had circumvented the $200,000 acquisition limit under the establishment authority.

Florida

A rehabilitation facility in Florida was required to vacate the property on which it operated a plant nursery program. The Florida rehabilitation agency approved a $145,000 establishment project in 1976 to provide new and expanded facilities and equipment to continue the plant nursery program at a different location. The approved project budget classified the following project activities as equipment--a laboratory, a storage and supply shed, a greenhouse, a classroom and office building, and drainage, paving, and fencing for 5 acres.

Florida rehabilitation agency officials stated that they approved the project after discussion with regional RSA personnel and with the understanding that the laboratory/storage shed, classroom/office, and greenhouse buildings would meet the RSA criteria for shelters (which allows the classification of a separate structure as equipment). The guidelines state that:

> "To be considered equipment, rather than a building, such a shelter must be of the type which a tenant would ordinarily provide under a short-term lease, rather than a landlord. It must be portable and capable of being moved along public roads by truck."

When we visited the facility in March 1978, the project had not been implemented and the facility was preparing to award a general construction contract for a freestanding building designed to house the laboratory/storage shed and classroom/office space included in the approved proposal. The facility excluded other approved project items from bid specifications due to excessive costs.

During our visit, a district rehabilitation official stated that he thought the facility was implementing the project as approved; however, the district official contacted the Florida rehabilitation State office and received instructions to advise the facility to delay the contract award pending further direction. In an April 5, 1978, letter to RSA, the director of the Florida rehabilitation agency requested an advisory opinion on whether this project proposal met the requirements of the establishment grant regulations.

After a review of facility drawings and specifications on the plant nursery project, Florida rehabilitation officials determined that the facility had planned to build a freestanding building (including a poured foundation, concrete walls, and partitions). In an April 18, 1978, letter to the facility's executive vice president, a Florida rehabilitation official stated that, based on the preliminary opinion of an RSA regional official, the facility's plans did not meet the definition of equipment and would be properly classified as new construction.

The RSA regional director advised the State rehabilitation agency in an April 28, 1978, letter that the project activity as proposed would constitute freestanding construction, with all the characteristics of a permanent structure. The RSA regional director suggested that the applicant consider returning to the original proposal, as approved, or to develop a new application for funding under the construction authority.

On May 10, 1978, the rehabilitation agency requested an RSA advisory opinion on plans and specifications for an alternative structure proposed by the grantee for funding under the establishment grant authority. The alternate proposal included a structure similar in size to the new building planned for the April 1978 contract award but different in construction, and a greenhouse which was to be erected as approved in the original project proposal. Before the RSA opinion was received, the State agency allowed the grantee to proceed with the greenhouse, fencing, paving, and roadwork, and to implement the balance of the project under the establishment authority to acquire existing buildings. The acquisition, as proposed by the facility and accepted by the rehabilitation agency, included the purchase of a modular building to be transported to a facility site and assembled to form a 40- by 60-foot building set on concrete pillars.

In a June 7, 1978, letter to the Florida rehabilitation director, the RSA regional director stated that

> "It is our opinion that the planned facility best meets the definition of 'construction' under our present guideline material.
>
> "The modular structure is assembled upon a poured foundation which will require the hook-up of utilities. Side panels, roof, and partitions then must be added on-site. The building's basic function will be to provide space for classrooms, office, and work areas."

The State agency subsequently decided to implement the project under the concept of the acquisition of an existing building rather than as equipment as initially approved, and the agency requested that the grantee submit a proposal for it to proceed under the establishment authority. The facility submitted a proposal to acquire the building on June 19, 1978, which was approved by the State agency on July 6, 1978. For the reason discussed in the RSA regional director's June 7, 1978, letter, we believe that the approval of the project as an acquisition of an existing building still did not bring the project into compliance with existing criteria for establishment grants.

ESTABLISHMENT FUNDS WERE USED TO COMPLETE A BUILDING

RSA guidelines state that Federal financial participation is not available under the establishment authority to assist in the completion of a building under construction to be used as a rehabilitation facility:

> "This would preclude, for example, participation in the cost of partitioning, plumbing, electric wiring or painting in a structure which has been completed only as to outside walls and roof. It would also preclude participation in the cost of alterations, remodeling or expansion of a new building being erected as a rehabilitation facility under other auspices, but not yet completed."

We found that the Alabama and Michigan rehabilitation agencies, contrary to RSA guidelines, approved projects under the establishment authority for $151,730 for completing two new buildings.

Alabama

A rehabilitation facility administrator in Alabama told us that he originally requested financial assistance from the State rehabilitation agency to construct a new building, but agency officials told him that neither establishment nor construction funds were available for new construction. According to the administrator, State rehabilitation officials said that if the facility would construct a basic building (i.e., exterior walls) the State agency would provide the funds to complete the building.

In a letter to the State rehabilitation agency in July 1975, the administrator stated:

> "* * * Because of the lack of funds at the time of initial construction we were unable to include many things necessary for the favorable operation of this program. With the favorable encouragement from Vocational Rehabilitation we set out to build our new building with the anticipation of a work shop improvement grant to furnish many of the things that we could not afford in the initial construction.
>
> "The building is a wide open area with the exception of an area across the front that we would like to partition off for classrooms and offices. The area has no partition walls, finished floor, electrical work, lighting, heating, or cooling. This will need to be done before any use can be made of the front portion of the building that was reserved for offices and classrooms.
>
> "We used only a temporary heating system in the initial construction because of our plans to use central heating and air conditioning throughout the building. Also no provisions were made for a finished ceiling and we want to add a drop ceiling to help with insulation. We also would like to add a fire sprinkler system throughout the building."

The facility had used about $133,000 of its own funds to construct the basic building, which was completed in January 1976. The building contained about 15,500 square feet of floor space. The administrator stated that State agency officials visited the facility after the construction

was finished and that the facility was notified in March or April 1976 that the State agency would fund the facility's project. The State rehabilitation agency approved a $51,730 establishment project for renovation activities, which included purchasing and installing: (1) a central heating and air conditioning system, (2) a drop ceiling, and (3) a fire alarm and sprinkler system.

In this instance, the total of local funds used by the facility to construct the original building and the State matching share used for the establishment project to complete the building exceeded the amount of non-Federal funds which would be required under the construction authority to construct the building. Nevertheless, we believe that the project as approved and funded under the establishment authority did not comply with Federal requirements, which prohibit the use of Federal funds to assist in the completion of a building for use as a rehabilitation facility.

The facility administrator told us in July 1978 that the new building was nothing more than a shell and that the establishment grant allowed the facility to carry out its rehabilitation program to its maximum potential. In commenting on our draft report in a May 29, 1979, letter, the director of the Alabama rehabilitation agency advised us that he believes the project complied with the Federal requirements; the building was completed and used as a rehabilitation facility and was complete with respect to plumbing and electrical accessories. The State rehabilitation agency director's statement does not agree with the facility administrator's July 1975 letter to the State rehabilitation agency, quoted above, which describes the unfinished building. Also, we obtained additional information during our fieldwork which supports the views provided to us by the facility administrator. For example, the chairman of the facility's board of directors stated in a July 22, 1975, letter to the State agency that the facility was requesting the project funding "to do a number of things to make it [the building] something besides just a shell."

Michigan

The Michigan rehabilitation agency approved a $100,000 project under the establishment authority for a facility in fiscal year 1974 to acquire a 7,500-square-foot building for use as a sheltered workshop. The facility director stated that the facility had originally planned to construct a new building; however, a similar building that was partially constructed and in a suitable location had become available--

the owner had to sell it because of financial problems. According to the director, the facility purchased the building for $70,000 and spent an additional $30,000 to install wiring, sprinklers, firewalls, and partitions.

The facility director submitted a project expenditure report to the State rehabilitation agency on September 30, 1974, showing that the facility had made two payments for the purchase of the building on July 11 and August 16, 1974, for a total of $70,000. Another project expenditure report dated December 31, 1974, showed that the facility had spent $3,915 on remodeling the newly acquired building, and a final project expenditure report dated June 30, 1975, showed overall expenses of $100,000 which closed out the grant. Following discussions during September and October 1975 between the facility director, a local law firm, and the State rehabilitation agency concerning the propriety of using grant funds to complete the building, the facility director submitted a revised project expenditure report on October 15, 1975, which reported that the building had been purchased on October 1 for $100,000. In a letter dated October 13, 1975, the law firm explained to a State rehabilitation agency official that the facility's records would show that the property was purchased for $70,000 and then transferred to a third party who accomplished the remodeling for $30,000, which was later reimbursed by the facility.

A Michigan rehabilitation official stated that the acquisition grant was really for acquisition and renovation, and that the renovation was completed by the private owner as a condition of the sale. We believe that this type of activity under the establishment authority does not satisfy the RSA requirements that there must be an existing building which has been completed in all respects in order to use basic program funds under the establishment authority.

ESTABLISHMENT FUNDS WERE USED FOR CONSECUTIVE EXPANSIONS AT THE SAME FACILITY

RSA guidelines state that, when considering the cumulative effect of successive projects to expand an existing building with vocational rehabilitation funds, the time at which each expansion takes place becomes a significant factor. The guidelines state that a second expansion of the same building within a year's time would raise a question as to eligibility for Federal financial participation under the establishment authority. On the other hand, the guidelines state that the same addition after a lapse of 5 or 10 years

might be appropriate under the establishment authority--providing it meets Federal criteria.

The Florida rehabilitation agency awarded several establishment grants to a rehabilitation facility between 1971 and 1976. In 1971, the facility occupied a newly constructed 6,200-square-foot retail store and workshop building, acquired without vocational rehabilitation program funds. Establishment grants made during 1972 and 1973 allowed the facility to expand and equip an additional 6,000 square feet, for a total of about 12,200 square feet of space. The facility occupied the 6,000-square-foot addition in September 1973. In 1974, the facility submitted a $401,272 establishment proposal to again expand the existing building, this time by 12,000 square feet, and to equip the added space. However, the rehabilitation agency advised the facility that it could not provide funds for the 12,000-square-foot expansion because two expansion projects at the same facility within such a short period of time would not be allowable under the establishment authority. The State agency did approve the purchase of equipment at a cost of about $163,000 on June 28, 1974.

The facility's executive vice president stated in April 1978 that the facility was unable to raise the necessary funds to construct the addition and, as a result, he reapplied in 1976 to the rehabilitation agency for a $200,000 establishment project to expand the facility by 12,000 square feet. The director said the rehabilitation agency approved this proposal without questioning whether the project would be appropriate under the establishment authority.

When we visited the facility in April 1978, the addition was under construction; the facility's executive vice president stated that the facility had changed its plans. The facility also planned to build a second floor in the approved addition which would increase the total space of the addition from the approved square footage of 12,000 to about 16,000. The construction contract signed by the facility was for a total cost of $309,593. To finance the project costs not covered by the $200,000 establishment grant, the facility secured a Small Business Administration loan supplemented by cash of its own.

We believe that the 1976 grant to the facility does not meet the intent of the Federal requirements for funding under the establishment authority, primarily based on the timing of the various expansions. Also, we believe that the project's scope, based on the revised facility plans made after the State agency's approval in 1976, does not meet the

intent of the guidelines because the total square footage of 16,000 more than doubled the existing space of 12,200.

In commenting on our draft report in a June 20, 1979, letter, the Secretary of the Florida Department of Health and Rehabilitative Services stated that the authorized expansion was within establishment grant parameters. According to the Secretary, the grantee proceeded to add floor space at his own expense, and without State agency knowledge or approval; it was the grantee's contention that he was unaware of the need for prior approval for increasing the size of the project. The Secretary stated that the Distribution of Facilities Plan for the State of Florida was promulgated soon after the misunderstanding and imposes strict guidelines for the use of rehabilitation facilities grants which should help to assure that projects are implemented in compliance with Federal and State regulations.

THE COST OF EXPANDING OR REMODELING EXCEEDS THE VALUE OF EXISTING BUILDINGS

RSA guidelines state that, while there is no limit on the cost of expanding a building under the establishment authority, the State agency should consider whether there is a reasonable relationship between the cost of the proposed addition and the value of the existing structure. The guidelines state that the estimated total cost of the expansion (from all sources) should ordinarily not exceed the value of the existing structure.

We believe that the cost for the renovation and expansion of a project approved under the establishment authority in Alabama exceeded the value of the rehabilitation facility's existing buildings. The Alabama rehabilitation agency approved an establishment project in fiscal year 1977 for $401,250 for renovating and expanding a rehabilitation facility workshop and activity center located in two facility buildings that were joined by a 100-foot enclosed walkway. Each building had about 10,500 square feet of space before the expansion. In July 1978 the facility director stated that he estimated the market value of the existing buildings to be about $40,000 each.

The project, as approved by the State rehabilitation agency, included the construction of a 14,793-square-foot addition connecting the two existing buildings. Following the construction contract award in June 1978, the estimated total cost increased to $610,379. A facility official said

that the increase in the project's cost was due to (1) the need to replace the boiler in the existing buildings, (2) the existing buildings requiring more renovation than originally anticipated, and (3) the impact of inflation during the 1-year delay between the time the project was approved and the construction contract was signed. In view of the large difference between the facility director's estimate of the market value of the existing buildings ($80,000) and the cost of the renovation and expansion activities ($610,379), we do not believe that the project meets the requirement of the guidelines for funding under the establishment authority.

In commenting on our draft report, the director of the Alabama rehabilitation agency pointed out that the Federal funds (as a percentage of the final project cost) were less than the amount which would have been required under the construction authority; costs exceeding the establishment funds initially approved were paid by the local facility. The director's comment is valid; however, we still do not believe that the project as approved and funded under the establishment authority complied with the Federal requirement that the total cost of the expansion (approved--$401,250; actual--$610,379) should not exceed the value of the existing structure ($80,000). Also the director stated that it is an accepted fact that due to inflation there are few instances when an establishment project which doubles the size of a facility does not exceed the value of the existing structure.

The guidelines for the establishment authority concerning allowable square footage do not address a situation where more than one building is involved. In this instance, while the expansion of 14,793 square feet exceeds the 10,500 square feet of one existing building, the expansion does not exceed the total existing square footage of 21,000 when the second building is considered. We believe that this type of project should have been funded under the construction authority.

ESTABLISHMENT FUNDS WERE USED TO REMODEL A BUILDING ACQUIRED UNDER THE CONSTRUCTION AUTHORITY

RSA guidelines do not address the propriety of using establishment funds to make a building purchased under the construction authority usable for rehabilitation purposes. Remodeling and alteration of an existing building may be approved under either the establishment or construction authority; the construction authority also provides for the

renovation of an existing building. In Kansas, an establishment grant ($357,986) was used to remodel and make usable a building purchased less than 5 months earlier with a construction grant ($434,205).

A rehabilitation facility was forced to abandon its existing building due to urban renewal. In fiscal year 1976 the Kansas rehabilitation agency approved, under the construction authority, the facility's acquisition of land and an existing building for $434,205. The new facility consisted of 51,213 square feet of space and was acquired on February 2, 1976.

The chairman of the facility's executive committee stated in July 1978 that RSA regional officials told him that, if the facility bought an existing building, the RSA regional office would arrange for an establishment grant to renovate whatever building the facility bought. In September 1975, about 3 months before the State agency approved the facility's final cost data to acquire the building, an independent consultant for the State rehabilitation agency estimated that it would cost about $230,000 to make the proposed building suitable for use. During a site inspection of the building in December 1975 (before the construction grant was approved), HEW regional, Kansas rehabilitation agency, and local officials identified many deficiencies in the building which needed to be corrected.

In June 1976, about 5 months after the building was acquired, the State agency approved an establishment grant of $357,986 to renovate the entire building in order to make it adequate for the facility's use. The lowest bid for the proposed work was $436,500 which, according to the facility's chairman, was to meet safety and health code requirements, make the production area functional, and provide the basic needs of a production facility. The facility subsequently revised the plans and received new bids based on a reduced scope of work in order to remodel with establishment funding within the original funding limit. However, due to the funding limit of $357,986 imposed by the June 1976 grant award, the facility did not complete all the work believed to be necessary (such as lowering the ceiling in the manufacturing area) to make the building suitable for rehabilitation facility purposes.

It was known at the inception of the project that the building to be acquired was not suitable for rehabilitation facility use and would require extensive remodeling. If the acquisition and remodeling had been funded as one project,

it would have been eligible for Federal funding under the construction authority at a 40-percent rate--a Federal cost of $316,877 and a facility cost of $475,315. The project was not eligible for funding under the establishment authority since the building acquisition cost of $434,205 was over the $200,000 cost acquisition limit under the establishment authority. It appears that the facility and the State arranged to have this project approved and funded as two separate projects in order to limit the facilities' funding to the lowest possible rate. The funding of this project as two separate projects permitted the facility to participate at a cost of $332,120, as opposed to a cost of $475,315 if funded as a single project.

DIFFERENCES BETWEEN CONSTRUCTION AND ESTABLISHMENT ACTIVITIES APPEAR MINIMAL

To compare the scope of work under the construction authority with the establishment authority, we reviewed five of the six awards that were made under the construction authority in Florida, Kansas, and Michigan during fiscal years 1974-77. The Alabama rehabilitation agency did not award any grants under the construction authority during this period.

The types of activity, scope of work, or total expenditures for the five projects were comparable in many respects to the activities previously discussed for the projects approved under the establishment authority. In many cases, the scope of work under the establishment grants exceeded the scope of activities approved under the construction authority. We believe that such situations result from the use of two sets of general and overlapping Federal requirements to achieve the same basic objectives. The following examples highlight the types of activity, scope of work, and total expenditures (including Federal, State, or local matching funds) for the five projects.

--The Kansas rehabilitation agency provided a nonprofit rehabilitation organization with a construction grant for $493,038 in fiscal year 1975 to purchase land and construct a preengineered metal building containing 20,000 square feet of manufacturing floor space and an attached single story office structure of about 5,700 square feet. Final construction was completed in June 1975.

--A nonprofit rehabilitation organization in Michigan received a $250,000 construction grant during fiscal year 1972 to construct a new building. Following changes in the design and other delays, the Michigan rehabilitation agency awarded an additional $88,536 during fiscal year 1974 to finance the proposed construction. The new facility opened for business in November 1974 in a 12,750-square-foot building.

--In fiscal year 1972, the Michigan rehabilitation agency approved a construction grant for a nonprofit organization to acquire and renovate a grocery warehouse for use as a rehabilitation facility. The total project cost was $376,356, including a $10,356 supplemental grant awarded in fiscal year 1974 to complete the renovation of the 22,000-square-foot single story building.

--A rehabilitation agency in Kansas was forced to abandon its existing facility due to urban renewal. The Kansas rehabilitation agency awarded the facility a $434,205 construction grant to acquire land and an existing building to replace the abandoned facility. The new facility which was acquired in February 1976, consisted of 51,213 square feet of space.

--The Florida rehabilitation agency approved in fiscal year 1974 a construction project costing $710,928 to a nonprofit organization for land acquisition, building construction, and related construction costs to build transitional living units for the severely disabled. The project included 12 apartments and 3,000 square feet of general support space. Construction had not started as of our visit in April 1978.

EQUIPMENT FOR CONSTRUCTION PROJECTS FUNDED UNDER ESTABLISHMENT AUTHORITY

Federal financial participation is available under the construction and establishment authorities for equipment. However, Federal guidelines state that when a building is newly constructed, newly acquired, or newly expanded, and funded under the construction authority, Federal financial participation in the cost of equipment is only available under the construction authority.

We visited five of the six facilities in Florida, Kansas, and Michigan, which received construction grants during fiscal

years 1972-76. The State rehabilitation agencies approved the purchase of $530,860 for equipment under the establishment authority for four of the five facilities. This represented the total equipment provided by the State agencies, using basic rehabilitation program funds for the five projects. The equipment purchases were not eligible for funding under the establishment authority because the projects were initially funded under the construction authority. In each case, Federal funds represented 80 percent of the total equipment costs. Some examples follow.

--Renovation activities done under the construction authority for a building acquired by a rehabilitation facility in Michigan were essentially completed in June 1974. The State rehabilitation agency at the same time approved the expenditure of $38,116 under the establishment authority to provide initial equipment. The facility's acting executive director stated in a May 29, 1974, letter to the State agency, accompanying the facility's grant application that the cost of much of the equipment approved under the establishment authority was included in the original construction grant, but the funds provided for the equipment were used to pay for the renovation work due to cost increases.

--The Kansas rehabilitation agency approved two establishment grants costing $444,140 for initial equipment purchases by a rehabilitation facility which had received funds under the construction authority to construct a new building. The facility completed construction of the building in June 1975. The Kansas agency approved the first equipment grant ($269,140) about 10 months before the construction was completed and the second grant ($175,000) 10 months after the construction was completed. A subsequent facility proposal for continuation of a staffing grant stated that the equipment provided through these two grants constituted the facility's immediate equipment requirements.

By funding the purchase of equipment under the establishment authority, the State rehabilitation agencies were able to use a more favorable Federal share than would have been allowed under the construction authority. For the above examples, if the State agencies had used the required construction authority, the State financial participation rate would have increased from 20 to 60 percent in Kansas and from 20 to 50 percent in Michigan.

DECLINING FEDERAL PARTICIPATION RATES IN STAFFING COSTS ARE NEEDED

Under the establishment authority, funding is available for 51 months to pay the salaries of staff needed for operating new or expanded facilities. During fiscal years 1974-77, the four States reviewed spent about $7.1 million in Federal and State matching funds for staffing activities. This funding is to encourage construction of new and expansion of existing rehabilitation facilities in the States. Although a gradual reduction in the Federal share would enable the rehabilitation facility to phase in responsibility for the cost of facility staffing, RSA guidelines require that the Federal share in the cost of staffing rehabilitation facilities remains at an 80-percent rate for 51 months, rather than at a declining percentage rate.

The Vocational Rehabilitation Amendments of 1968 extended the allowable period of time for providing initial staffing from 12 months to 51 months. In discussing the proposed change, the Senate Committee on Labor and Public Welfare stated in Senate Report No. 1309 (June 21, 1968):

> "The committee expects that the regulations relating to initial staffing will provide for comparability with the initial staffing provisions under section 12 of the act, including the provisions that set forth the rate of payment; i.e., 75 percent for the first 15 months, 60 percent for the next 12 months, 45 percent for the next 12 months, and 30 percent for the next 12 months."

The Rehabilitation Act of 1973 (enacted Sept. 26, 1973) repealed the existing Vocational Rehabilitation Act, including the 1968 amendments. However, title I of the 1973 act continued the authority for State agencies to use basic rehabilitation program funds for initial staffing needs for operating new or expanded facilities. 1/ Title III of the 1973 act provides a number of special programs administered at the Federal level, including the authority to approve grants for the initial staffing of rehabilitation facilities on a descending scale over a 51-month period identical to the provisions set forth in Senate Report No. 1309.

1/As discussed on page 8, the 1978 amendments broadened the authority to approve additional staffing for rehabilitation facilities as determined by the Commissioner of RSA.

However, the Federal regulations and RSA guidelines implementing title I of the 1973 act provide for a Federal financial share of 80 percent over the 51-month period for initial staffing. The RSA guidelines state that

> "Question arises from time to time, particularly in relation to initial staffing, as to whether a State agency may reduce the percentage of costs awarded to the private nonprofit establishment project sponsor below the Federal share provided in the Act."
>
> * * * * *
>
> "The proportion of financial participation must be that provided for in the act, when earmarked funds are used. If any reduction in support is to be made, the scope of the project to be assisted by the State agency must be reduced rather than the percentage of participation in the sponsor's original request."

RSA officials stated in November 1978 that they do not believe the 1973 act allows RSA to require rehabilitation facilities which are receiving staff funding under title I to provide the non-Federal share over the required 20 percent. State rehabilitation agency officials told us that they believe this interpretation inhibits an efficient utilization of the staffing authority. Without the authority to gradually reduce the involvement of Federal funds over the life of a project, State officials believe that they lose the flexibility needed to effectively manage the projects. State agency officials pointed out that the gradual reduction in the percentage of the Federal share for staffing would not only make funds available to assist other facilities or serve additional clients during the later months of a project but also serve to accustom the facility to assume total responsibility when Federal funding is no longer available.

CONCLUSIONS

The Rehabilitation Act of 1973 needs to be revised to provide a single authority that would authorize the construction of new buildings; the acquisition, remodeling, expanding, and renovating of existing buildings; the acquisition of equipment; and the staffing of vocational rehabilitation facilities. A single authority would permit (1) the Secretary

of HEW to develop a single set of Federal regulations and guidelines and (2) one rate of Federal funding for all facility projects. These changes should also alleviate many of the problems and inconsistencies with project development and funding which are attributable to the current dual Federal guidelines and share requirements.

We believe that the State agency administration of the projects involved in providing staffing would be strengthened by revising the 1973 act to provide for the gradual reduction of the Federal financial participation over the life of the project. This would not only make funds available to serve other facilities or additional clients during the later months of a project but also serve to accustom the facility to assume an increasing proportion of the costs so that the facility will be better prepared to assume total responsibility when the Federal funding is no longer available.

We believe that the provision in the 1973 act which restricts the Federal participation in the construction of rehabilitation facilities to a maximum of 10 percent of the States' allotment under the basic program serves a useful purpose, since it limits the use of basic program funds for activities other than for the payment of costs for services to handicapped individuals. However, because there is no limit under the establishment authority on the amount of basic program funds that may be spent on a facility's acquisition, expansion, alteration, remodeling, and equipping, and because the States have extensively used the establishment authority in lieu of the construction authority, the intent of the construction limitation has been negated. Therefore, the act needs to be amended to insure that disproportionate amounts of funds are not spent for facility construction, acquisition, and remodeling activities which reduce the amount of funds available for providing services to the handicapped.

We believe that RSA needs to take a number of actions to correct past deficiences made by States in classifying facility projects as establishment projects and which resulted in States receiving reimbursements at higher rates than authorized by Federal regulations. To preclude similar deficiencies from recurring, we also believe that RSA needs to update and revise the Federal guidelines to provide a better basis for the State to determine the eligibility of projects for funding under the establishment and construction authorities. In this regard, RSA needs to insure that each State rehabilitation agency is provided, in a timely manner, with a copy of all policy interpretations relating to issues concerning establishment and construction activities.

RECOMMENDATIONS TO THE CONGRESS

We recommend that the Congress amend the 1973 act to create a single Federal authority for authorizing the States' use of basic program funds to

--construct new buildings;

--acquire, expand, remodel, alter, or renovate buildings;

--acquire equipment; and

--pay for rehabilitation facility staff.

We recommend that the Congress maintain the provision in the 1973 act that requires the Hill-Burton formula for determining the Federal share for construction activities (excluding staffing) in order to make the Federal requirements consistent for construction activities under the Rehabilitation Act of 1973 and the Hill-Burton program. To make the Federal sharing requirements for staffing consistent under the 1973 act, the Congress should amend the term "Federal share" to make the Federal funding rate for staffing under title I consistent with staffing rates under title III of the 1973 act.

If the Congress decides to maintain the separate funding authorities in the 1973 act, we recommend that the act's present restriction for construction (limiting Federal funding to 10 percent of the State's annual Federal funding for the vocational rehabilitation program) be revised to limit activities under both the construction and establishment authorities to 10 percent of a State's annual allotment.

RECOMMENDATIONS TO THE SECRETARY OF HEW

We recommend that the Secretary of HEW:

1. Direct the Commissioner of RSA to review the expenditures for establishment and construction and make every reasonable effort to recover from State rehabilitation agencies Federal funding which did not clearly comply with Federal regulations and program requirements.

2. Pending consideration of our recommendation to the Congress that a single authority be developed, require the Commissioner of RSA to revise the program guidelines to

   --provide detailed instructions to State vocational rehabilitation agencies to help them implement the changes in the construction and establishment authorities made by the 1973 act and

   --identify and clearly differentiate between the types of activities eligible for funding under each authority.

3. Direct the Commissioner of RSA to establish a systematic process to assure that all Federal policy interpretations affecting the meaning or intent of Federal requirements or guidelines are forwarded to and maintained by each regional office and State agency in a timely manner.

PROPOSED STATUTORY AMENDMENTS

The modifications to the Rehabilitation Act of 1973, based on our recommendations to the Congress, would read:

Single authority for the construction of a rehabilitation facility

Sec. 7(1) of the Rehabilitation Act of 1973 (29 U.S.C. 706) is amended to read as follows:

"The term 'construction' means the construction of new buildings, the acquisition, expansion, remodeling, alteration, or renovation of existing buildings, equipment of such buildings, and may include the staffing thereof, and the term 'cost of construction' includes architects' fees and acquisition of land in connection with construction but does not include the cost of offsite improvements."

Sec. 7(4) of the act (29 U.S.C. 706) should be deleted in its entirety.

Sec. 103(b)(2) of the act (29 U.S.C. 723) is amended to read:

"** * * the construction of public or nonprofit rehabilitation facilities and the provision of other facilities and services (including services offered at rehabilitation facilities) which promise to contribute substantially to the rehabilitation of a group of individuals but which are not related directly to the individualized rehabilitation written program of any one handicapped individual; and * * **"

Federal share for staffing under title I consistent with staffing authority under title III

Sec. 7(6) of the act (29 U.S.C. 706) is amended to read:

"The term 'Federal share' means 80 per centum, except that it shall mean 90 per centum for the purposes of part C of title I of this Act and as specifically set forth in section 301(b)(3): Provided, that with respect to payments pursuant to part B of title I of this Act to any State which are used to meet the costs of construction of those rehabilitation facilities identified in section 103(b)(2) in such State, the Federal share shall be the percentages determined in accordance with the provisions of section 301(b)(3) applicable with respect to that State and that, for the purpose of determining the non-Federal share with respect to any State, expenditures by a political subdivision thereof or by a local agency shall, subject to such limitations and conditions as the Secretary shall by regulation prescribe, be regarded as expenditures by such State, except that with respect to payments to meet the costs of staffing of those rehabilitation facilities identified in section 103(b)(2), the Federal share shall be the percentages determined in accordance with the provisions of section 301(c)."

Restriction on Federal financial participation to include establishment as well as construction activities

If separate funding authorities for establishment and construction are maintained in the 1973 act, the act's present restriction limiting the Federal financial participation to 10 percent of the State's annual allotment should

be revised to limit activities under both authorities to a total of 10 percent of a State's annual allotment. In this regard, sec. 101(a)(17) of the act (29 U.S.C. 721) is amended to read:

> "* * * provide that where such State plan includes provisions for the establishment or construction of rehabilitation facilities--
>
> (A) the Federal share of the cost of the establishment and construction thereof for a fiscal year will not exceed an amount equal to 10 per centum of the State's allotment for such year,
>
> (B) the provisions of section 306 shall be applicable to such construction and such provisions shall be deemed to apply to such construction, and
>
> (C) there shall be compliance with regulations the Secretary shall prescribe designed to assure that no State will reduce its efforts in providing other vocational rehabilitation services because its plan includes such provisions for establishment and construction;"

AGENCY COMMENTS

On May 3, 1979, we gave HEW a draft of this report and requested its comments by June 2, 1979. HEW was not able to provide written comments although the deadline was extended to June 15, 1979. Therefore, we are issuing this report without the benefit of official HEW comments. HEW decided instead to provide oral comments on our draft report through RSA officials. They generally concurred in our recommendations to the Secretary and said they had taken or planned to take the following actions:

--Regarding our first recommendation, RSA plans to direct its regional staff to conduct reviews to substantiate our findings. Federal funds will be recovered in those instances where State agencies failed to comply with Federal regulations and program requirements. RSA has a review team that is visiting State agencies to determine the States' management of program resources and recommend management practices to reduce or eliminate fraud, abuse, and waste.

--Regarding our second recommendation, RSA has prepared drafts of new regulations and plans to begin revising the program guidelines within the next few months in light of the Rehabilitation, Comprehensive Services, and Developmental Disabilities Amendments of 1978 (Nov. 6, 1978) which amended the 1973 act, including the establishment and construction authorities. (See p. 8.) When the regulations and guidelines are issued, RSA plans to provide training and instructions for regional staff, who in turn will provide similar training and instructions for State rehabilitation agency staff.

--Regarding our third recommendation, RSA is exploring an overall systematic process which will assure that all policy interpretations are forwarded to and maintained by RSA regional offices and State rehabilitation agencies.

STATE COMMENTS

Each of the four States was given an opportunity to comment on our findings and conclusions; their comments and our evaluations, where appropriate, are summarized below.

Alabama

The director of the Division of Rehabilitation and Crippled Children Service, Alabama Department of Education, stated that the Alabama agency did not approve projects under the establishment authority rather than the construction authority in order to take advantage of the highest rate of Federal financial participation. The director stated that Alabama has had more than ample State and local funds to match Federal funds for services to the handicapped over the past 10 years. According to the Alabama director, the only reason that projects in Alabama were approved under the establishment rather than the construction authority was to minimize the amount of staff hours required to develop the project since construction projects required an abundance of paperwork for approval.

Also, the director did not agree with our recommendations to the Congress that a single legislative authority be created or that the existing restriction on construction funding (limiting Federal funding to 10 percent of a State's annual Federal funding for the rehabilitation program) should be extended to cover establishment funding. The director concluded that the 1973 act is very clear regarding the establishment and construction authorities.

Florida

The secretary of the Florida Department of Health and Rehabilitative Services did not agree with our conclusion that the Florida rehabilitation agency stretched or ignored the Federal guidelines to approve projects under the establishment authority rather than the construction authority. The secretary stated that the less restrictive construction authority need not be used if the project can be funded, when in compliance with the appropriate guidelines, under the establishment authority with a lesser rate of non-Federal participation. We agree that the construction authority need not be used if a project meets the establishment criteria; however, projects discussed on pages 17 to 19 and 22 to 24 demonstrate instances where the Florida agency stretched or ignored the Federal guidelines. According to the secretary, it is obvious to those in the States attempting to administer these programs that the Federal side of the partnership is insufficient and in many cases completely nonexistent. This is especially true for the establishment authority where guidelines issued in 1971 continue to be the Federal control document, although they were never updated to include major changes necessitated by the 1973 amendments to the Rehabilitation Act. According to the secretary, these circumstances persist despite recommendations in our May 5, 1977, report, "Controls Over Vocational Rehabilitation Training Services Need Improvement" (HRD-76-167), that the Secretary of HEW direct the Commissioner of RSA to "coordinate with HEW regional offices and/or the HEW Audit Agency to provide for comprehensive financial reviews of the various grants and other funds awarded to rehabilitation facilities * * *" and "provide technical and financial guidance, including training sessions to help States develop sound financial policies regarding payments to facilities * * *." The secretary stated that not only have Federal guidelines become more out of date, but expertise and special staff assignments in the RSA regional offices in support of rehabilitation facilities services have decreased.

The secretary stated that a recommendation to the Congress to provide a single Federal authority with a uniform matching requirement seems a simplistic solution in light of the lengthy deliberation and careful consideration given these separate subjects when the legislation was designed and passed. The secretary stated that both the establishment and construction authorities will be needed in the future if severely handicapped individuals are to be rehabilitated. He also stated that revised and updated RSA program guidelines are urgently needed by the State operating

agencies to (1) prevent the use of one authority when the other is more applicable and (2) provide clear and concise direction included in the legislation and regulations so States can gain the maximum benefit from timely application.

Regarding our recommendation that the Hill-Burton rate be used for deciding the Federal share under a single funding authority, the secretary stated that it is questionable whether the applicant organizations in Florida could have provided the higher non-Federal share--even though increased applicant financial participation is desirable. According to the secretary, the 50-50 rate for Florida would have required applicants to contribute about 150 percent more in fiscal year 1978 ($500,000) than the $200,000 required to match the State's total establishment funding of $1 million. The secretary concluded that it is doubtful that the identified service need could have been met in those instances where the 80-percent rate was not used. We do not believe that this should present a serious concern because the applicant organization is not required under the 1973 act to provide the total non-Federal share; the State rehabilitation agency may pay all or part of the non-Federal share for establishing or constructing rehabilitation facilities. When a service need is identified, it appears reasonable to assume that the State agency may want to participate in the funding, along with the applicant organization.

The secretary generally agreed with our recommendation that the Federal funding rate for staffing under title I and title III of the 1973 act should be consistent. Regarding our recommendation that the restriction on Federal funding (10 percent) should cover establishment as well as construction, the secretary stated that the limit would probably not be of serious consequence to the State's program, but he questioned the need for the change because it would remove some flexibility for State agency planning. We believe that the restriction, as recommended, would permit States adequate flexibility and achieve the congressional intent that rehabilitation program funding should be limited for activities other than the payment of costs for services to handicapped individuals.

Regarding our recommendation that the Secretary of HEW recover from State agencies Federal funds spent which did not clearly comply with Federal regulations and program requirements, the secretary questioned whether clear noncompliance can be demonstrated in the absence of clear Federal regulations and program requirements. The secretary concluded that our audit work clarified some Federal requirements in

the absence of timelier guidance from RSA; the State agency now understands the requirements and has adjusted its records and procedures accordingly.

Kansas

In a May 16, 1979, letter, the acting director of vocational rehabilitation, Kansas Department of Social and Rehabilitation Services, generally agreed with our recommendations. According to the acting director, clear guidelines to the States would mean more definition to the grant recipients which could only be helpful.

Michigan

In a June 12, 1979, letter, the interim associate superintendent for rehabilitation, Michigan Department of Education, supported our recommendation that the Congress amend the 1973 act to provide a single legislative authority for establishment and construction. He stated that the proposed single set of regulations would simplify the administration of the Michigan facilities development program since this would provide for a single rate of Federal funding which would eliminate the temptation for State rehabilitation agencies to take advantage of the lower non-Federal share through overlaps in the existing guidelines.

The interim associate superintendent did not agree that the Hill-Burton formula rate should be used for determining the Federal share, instead, a standard 80-percent Federal share (similar to the provision of the establishment authority) should be used.

The interim associate superintendent supported our recommendation to extend the funding restriction on construction to also include establishment; Michigan generally complied with a 10-percent limitation on establishment and construction funding.

The interim associate superintendent expressed concern about our recommendation that RSA recover Federal funds spent which did not clearly comply with Federal regulations and program requirements. According to him, both Federal and State sectors have been parties to the flexible interpretation and use of the establishment funding authority; a widespread flexible application by the States was implicitly permitted by RSA for several years. The interim associate superintendent concluded that our recommendation places a permissive RSA in the difficult position of recovering funds from States that may not have been provided sufficient guidance and leadership from RSA.

CHAPTER 3

STATES HAVE NOT DEVELOPED ADEQUATE SYSTEMS FOR ADMINISTERING ESTABLISHMENT OR CONSTRUCTION ACTIVITIES

RSA regional staff had not adequately monitored the practices and procedures of the State agencies we reviewed to insure that Federal and State matching funds were used in a proper manner and according to Federal criteria. None of the four State rehabilitation agencies had adequate administrative and fiscal controls. As a result, (1) expenditures for establishment and construction were not accurately reported to RSA by State rehabilitation agencies, (2) improper or questionable grant expenditures were made by rehabilitation facilities, and (3) adequate records were not maintained by State agencies and rehabilitation facilities to document the expenditure of program funds on grant activities.

Also, State agencies had, in several instances, improperly reported the obligation of funds in one fiscal year even though the State agency did not approve the project proposals or award the project grants until the following fiscal year. Also, several grants awarded near the end of a fiscal year experienced long delays between a project's approval and its initiation.

FEDERAL ROLE VIEWED AS BASICALLY ADVISORY

Through its regional offices, RSA is responsible for providing leadership to the States and for assisting them in planning, developing, and coordinating their overall programs and evaluating their program performance. The individual State rehabilitation agencies are responsible for administering and operating the rehabilitation program.

RSA staff at the three regional offices we visited said that they had exercised only a limited oversight role in the use of the two authorities by the State rehabilitation agencies due to staffing limitations. They had basically relied on the State agencies to develop and implement the controls needed to properly administer the rehabilitation facility projects and to assure that Federal and non-Federal matching funds were used in accordance with Federal criteria.

RSA's guidelines require the State rehabilitation agencies to forward copies of approved project proposals to the RSA regional office to inform regional staff of the scope and character of the projects. Under the guidelines, the RSA regional offices do not have authority to approve State agency establishment or construction project awards. The decisions on individual awards are made by the State rehabilitation agencies. However, we found that the requirement to forward copies of approved proposals is often not met. In some cases, RSA regional staff receive the project proposals before the State agencies' approval, some after the money has been spent, and some are never received.

Regional officials believe that they have an advisory role in assisting State agencies to comply with Federal requirements. The regional staff generally review project proposals to determine whether the project meets the criteria for an establishment or construction grant. However, the officials said that, when the regional review raises questions concerning an aspect of a project, the State agency makes the final decision concerning the project changes that should be made.

Although some regional staff may, from time to time, make site visits to certain facilities in connection with other activities, they do not routinely review financial records or activities of either the State rehabilitation agencies or rehabilitation facility establishment or construction activities, or verify the balances of unliquidated obligations maintained by the State agency. Finally, neither RSA regional staff nor HEW audit agency staff in the three regional offices had made any detailed reviews of the four State agencies' administration of establishment or construction activities during fiscal years 1974-77. The Atlanta audit agency staff had initiated a review of the Florida establishment and construction funding in fiscal year 1978.

EXPENDITURES FOR ESTABLISHMENT AND CONSTRUCTION ACTIVITIES ARE NOT ACCURATELY REPORTED

The expenditures of basic program funds under the establishment and construction authorities often were not accurately reported because State rehabilitation agencies reported

--the same awards to certain rehabilitation facilities in 2 fiscal years;

--less than the total amount of the expenditures made to certain rehabilitation facilities; and

--as establishment projects, awards made for projects under other provisions of the 1973 act.

RSA regional officials stated that the annual financial reports submitted by the State agencies to account for the expenditure (including obligations) of Federal and State funds for the basic rehabilitation program are reviewed for accuracy. However, RSA verification procedures were not adequate for detecting the inaccurate, incomplete, or misleading information reported for establishment or construction activities by three of the four State agencies we visited, as described below.

Duplicate reporting of project awards

The Alabama rehabilitation agency's annual financial reports for fiscal years 1974 and 1975 showed expenditures of Federal and State funds for the basic rehabilitation program of $22.4 million and $23.4 million, respectively. Of these amounts, the Alabama agency reported that $2,825,476 had been spent in fiscal years 1974 and 1975 under the establishment authority. We compared project expenditure data with the amounts reported to RSA as expended for the 2 fiscal years, and found that the State agency had reported duplicate expenditures for two facilities totaling $1,035,925. The following table shows the actual expenditures and reported expenditures for the two projects in fiscal years 1974 and 1975:

Project	Total expenditures in fiscal years 1974 and 1975 reported to RSA	Total actual expenditures	Amount overstated
A	$ 771,600	$418,885	$ 352,715
B	1,222,170	538,960	683,210
Total	$1,993,770	$957,845	$1,035,925

For both projects, the expenditures reported in fiscal year 1974 represented the initial budget authorization; the amounts reported in fiscal year 1975 represented an amended budget authorization for the same projects. For example, the

State agency authorized project A on June 10, 1974, to proceed with an establishment project involving the expansion of an existing building and the purchase of initial equipment for a total award of $352,715. Following the receipt of construction bids, the State director approved an amended budget on November 11, 1974, which raised the total project budget to $418,885. However, instead of reporting only the increase of $66,170 as an expenditure in fiscal year 1975, the State agency reported the total amended budget of $418,885 on the fiscal year 1975 financial report to RSA. The fiscal year 1975 report is overstated by $352,715 as a result.

A State agency official agreed that expenditures for the two projects had been reported twice. However, he stated that the total expenditures reported for the basic program (including establishment expenditures) were correct, even if the individual budget categories may be overstated or understated. During a June 1978 interview, the official said that this type of situation occurred because the State agency's accounting system had only recently developed the ability to separate facility expenditures into client services, services to groups of handicapped individuals, and establishment activities. To determine whether Federal funds have been properly spent by the State agency would require the State agency to reconstruct its financial records and to have a detailed financial audit made for each fiscal year.

In addition to the above instances, where the expenditures for the same establishment activities were reported on successive fiscal year financial reports, we also noted the same situation with construction activities at two facilities in Alabama, which were incorrectly reported on the fiscal year 1972 and 1973 financial reports. This resulted in an overstatement of $438,750 for the two facilities.

In commenting on our draft report, the director of the Alabama agency recognized that there was an error in reporting Federal funds used under the establishment authority and noted that action had been taken to assure that the recording problem did not recur. The director also believes that the agency's records will show that the funds were used in accordance with State and Federal guidelines.

Projects incorrectly reported
under the establishment authority

The establishment and construction of rehabilitation facilities are only two of a number of funding authorities under the 1973 act for which the State rehabilitation

agencies may use basic program funds. In annual financial reports to RSA, three of the four State agencies incorrectly reported projects approved for services to groups of handicapped individuals as establishment and construction activities during fiscal years 1972-76. The following table shows the number of projects and expenditures for services to groups of handicapped individuals that were incorrectly reported under the authorities for construction and establishment projects by the three State agencies.

	Construction		Establishment	
	No. of projects	Total reported	No. of projects	Total reported
Alabama	1	$78,370	4	$ 288,205
Kansas	-	-	3	535,850
Michigan	-	-	4	226,426
Total	1	$78,370	11	$1,050,481

In addition to incorrectly reporting expenditures on individual projects, the Alabama agency included expenditures of $778,620 for one project under the establishment authority on its fiscal year 1974 annual financial report while the approved project budget under the establishment authority was $640,180. An Alabama official said that the facility received basic program funds under the funding authority for services to groups of handicapped individuals and that the difference between the reported expenditures of $778,620 and the approved budget of $640,180 may represent the facility's funding under that authority. (The financial report for fiscal year 1974 did include expenditures of $15,281 for the facility under the authority for services to groups of handicapped individuals. However, the official said that he was not able to determine the facility's actual funding under these authorities based on the information available in the project files.)

Because RSA uses State agency data to account for the expenditure of Federal funds and to document the basic rehabilitation program's performance under the various funding authorities, we believe that it is important that the State agencies provide an accurate accounting of the annual expenditures under the different funding authorities for Federal reporting. The results previously discussed cast doubt on the usefulness of the information reported for the individual funding authorities by the three State agencies.

Total project costs
not always reported

The Kansas rehabilitation agency did not always report the total costs of projects funded under the establishment or construction authorities on the annual financial reports submitted to RSA. For instance, the Kansas agency reported basic rehabilitation program expenditures of $55,930 on one establishment project during fiscal year 1977 and $397,700 on one construction project during fiscal year 1975. However, project records show that the total costs were $63,022 for the establishment project and $493,038 for the construction project. This resulted in understating the total scope of establishment and construction activities in Kansas.

REHABILITATION FACILITY ACTIVITIES NOT ADEQUATELY MONITORED

RSA guidelines state that the administrative and fiscal controls used by State agencies should provide an adequate basis to account for the expenditures for establishment and construction activities and to assure the State agency that facilities spent the money for the intended purposes. Onsite visits and inspections provide State rehabilitation agencies a useful means of monitoring expenditures on ongoing projects. The guidelines state that a plan of onsite inspections should be developed and carried out by the State agencies at regularly specified intervals. However, none of the four State agencies had established adequate means (including periodic site visits) for monitoring ongoing projects.

Although the Alabama, Florida, and Michigan agencies made some site visits, the agencies had not developed written procedures for evaluating establishment or construction activities. Rehabilitation officials in Kansas and Michigan stated that State auditors had performed only a few audits of establishment or construction activities. According to Alabama and Florida officials, State auditors had not performed any audits of establishment or construction projects.

We found numerous irregularities and deficiencies in the use of grant funds in our visits to 42 facilities in the four States. For instance, we found the following deficiencies in accounting for basic program funds at three of the nine facilities we visited in Michigan:

--In fiscal year 1976, a facility received about $10,000 to install a dust evacuation system. The facility

reported the obligation of funds for purchasing the system to the State agency on a September 1977 expenditure report. Our site visit during July 1978 revealed that the system had not been installed. The facility's director stated that the $10,000 was not available in the facility's bank account. We informed the State agency about this situation in August 1978. In October 1978, a Michigan rehabilitation agency official stated that the agency had initiated action to recover the Federal funds from the facility.

--A facility received $1,533 in fiscal year 1974 as part of an establishment grant for purchasing a copier. At the time of our visit in August 1978, the facility did not possess the equipment originally funded by the establishment grant. The facility director said that the "missing" copier was sold to a neighboring agency for $200. The copier was sold without bids and the rehabilitation agency was not notified. The director said that the proceeds were spent on a new copier. The rehabilitation agency was not aware of this situation at the facility.

--A facility received $3,100 under the establishment authority in fiscal year 1974 to buy an automobile. An audit by an independent accounting firm, completed in March 1977, disclosed that the automobile had not been purchased and that the facility had improperly spent an additional $2,911 provided by the State agency for staffing costs during fiscal years 1975 and 1977. The facility is making installment payments to the State agency for the disallowed expenditures of $6,011.

Our site visits to the nine facilities in Michigan also revealed one or more instances of improper or questionable grant expenditures at five facilities, including the use of establishment funds to

--purchase equipment which was not used or used for other than the approved project purposes;

--pay for a position not approved by the State agency; and

--pay for a previously existing staff position, even though the guidelines permit establishment funding only for staffing for new or expanded rehabilitation facility activities.

At 15 of the 33 facilities we visited in the other three States, we found similar problems or deficiencies in the administration of grant activities involving expenditures for equipment and staffing. We believe that rehabilitation agency staff could have identified and corrected the deficiencies through site visits.

ADEQUATE RECORDS NOT MAINTAINED BY STATE AGENCIES OR REHABILITATION FACILITIES

The lack of adequate recordkeeping systems at the Alabama and Kansas rehabilitation agencies caused problems with controlling facility expenditures by the two State agencies. Also, poor recordkeeping practices existed at many of the facilities in the four States; this hindered our evaluation of project expenditures and activities.

RSA guidelines state that, in carrying out its responsibilities, the State agency should develop uniform accounting and reporting procedures to be followed by facilities and to insure that their records are available for State and Federal audits. Several State agency and facility officials told us that the lack of guidance by the State rehabilitation agencies concerning recordkeeping and reporting requirements was a major area needing improvement. This is especially critical in light of the sometimes high turnover in facility personnel. We were able to obtain only limited information concerning grant awards, at a number of visits to facilities in the four States due to the lack of adequate records and the changes in facility administrative personnel (new personnel were not familiar with the grant activities).

Kansas

During its review of a facility's project proposal submitted by the Kansas rehabilitation agency, the RSA regional office requested in August and November 1976 that the State agency provide information on the controls it would use to insure that funds for establishment and construction activities would be spent properly by the facility.

In a January 4, 1977, response, the State agency assured the RSA regional office that

--vouchers from the grantee would be processed only upon assurance that the expenditures were made and upon submission by the grantee of a vendor's bill,

--payments would not be made before the actual expenditure of funds by the grantee or without explicit assurances by the grantee that the expenditures were actually made, and

--an up-to-date auditing system is provided whereby a continuous financial record would be maintained to account for obligations and the unexpended balance of basic program funds awarded for establishment and construction projects.

During our fieldwork, we found little evidence that the controls described by the State agency to the RSA regional office had been established. In fact, the lack of such controls had resulted in a number of problems in the agency's grant administration. For example, the State agency had not maintained a financial record of the expenditures made and the unexpended balance of grants until October 1977. At our request in June 1978, the State agency reconstructed, using available information, expenditure data for establishment and construction grant awards during fiscal years 1974-77. Using the information developed for us by the State agency and obtained during our visits to various facilities, we identified a number of inconsistent or improper activities related to the lack of fiscal control by the State agency.

For instance, the Kansas rehabilitation agency made payments to one facility for vouchers submitted from June to December 1977, even though the facility had not sent its 20-percent matching share to the State agency. (Federal guidelines state that non-Federal matching funds must be deposited in the account of the State rehabilitation agency.) On December 9, 1977, the State agency requested the facility to submit its 20-percent matching share for the grant so that the State agency could process the facility's vouchers. As of that date, the State agency had already made four payments to the facility totaling $29,681. The State agency did not receive the facility's matching share until January 16, 1978. When questioned on this matter in August 1978, a State official stated that, when the disbursements were approved, he incorrectly thought that the payments were for a prior grant to the facility.

The expenditure data developed by the State agency at our request revealed that another facility had used $3,833 of an unspent balance of Federal and State matching funds of a fiscal year 1975 grant award as part of the facility's

matching share for a fiscal year 1976 grant award. However, the facility was eligible to use only its 20-percent State matching share of the unspent balance ($766) in this manner and should have been required to refund the remaining $3,067 (which represents the Federal share of the balance) to the State agency. The State agency found this error during its reconstruction of expenditure data for us in June 1978. After it was notified of this error by the State agency, the facility refunded the Federal share to the State agency.

For another facility, the State agency's June 1978 reconstruction of the expenditure data for us showed that the State agency had overpaid a fiscal year 1977 grant by $1,291 and that the facility had underpaid its matching share for a fiscal year 1978 grant by $1,418. The State agency subsequently requested that the facility remit the $2,709.

Alabama

Like Kansas, the Alabama rehabilitation agency also had not implemented a system to control funding to individual rehabilitation facilities. Rehabilitation officials stated that their accounting and financial reporting systems did not provide the agency with the capability to track individual establishment project expenditures or unexpended balances. They agreed that such records should be maintained, and that they would initiate action to correct the situation.

We attempted to reconstruct the State's establishment project expenditures. However, the State agency could not locate records for one project. Data on two other projects showed that the State agency paid the facilities $825,308 from fiscal year 1974 and $467,037 from 1975 funds, even though both projects were reported to RSA as fiscal year 1974 expenditures. For one of the two projects, State agency records which showed expenditures of $757,476 were not in agreement with the funds awarded of $640,180. State agency officials said they could not explain the apparent discrepancies or why certain records were missing.

In addition, by using State agency records that were furnished to us, we reconstructed payments to facilities for individual establishment projects and identified four projects totaling $941,425 which apparently had been completed but had unexpended grant balances of $5,792. Because the State agency did not maintain records to keep track of unexpended grant balances, officials were not aware of this situation.

NEED TO EXAMINE STATES' CONTROLS OVER THE OBLIGATION OF FEDERAL FUNDS FOR ESTABLISHMENT AND CONSTRUCTION ACTIVITIES

Federal regulations and RSA guidelines provide that State policies determine the fiscal year to which vocational rehabilitation program expenditures are chargeable. For Federal reporting purposes, expenditures include obligations incurred as well as actual cash disbursements. Although the systems used by State rehabilitation agencies to fund the establishment and construction of rehabilitation facilities varied among States, three of the four State agencies generally made awards near the end of a Federal fiscal year in order to obligate funds which they determined would not be used for other purposes under the basic rehabilitation program. The director of the Alabama rehabilitation agency stated that this occurred primarily because the amount of available Federal funds was not known until near the end of the fiscal year. The result of this type of approach was to approve project proposals and obligate funds in the present fiscal year for use in succeeding fiscal years. In contrast to the other three State agencies, the Michigan agency includes in its annual State budget a specific amount of program funds for establishment or construction purposes. This approach permits the Michigan agency to obligate funds at or near the beginning of each fiscal year.

While the general procedures used by the three State agencies are not prohibited by Federal guidelines, our review of fiscal records for establishment and construction activities in Kansas and Florida disclosed that the State rehabilitation agencies had, in several instances, reported the obligation of funds in one fiscal year even though the State agency did not approve the project proposal or award the project grant until the following year.

Kansas

The following table shows the expenditures reported by the Kansas rehabilitation agency in fiscal years 1974 and 1975 even though the project proposals were not approved until after the end of the fiscal year.

Project	As shown in Federal financial report: Fiscal year ending June 30,	Expenditures reported	As shown in approved project proposal: Date	Expenditures approved
A	1974	$380,230	Aug. 1974	$390,940
B	1974	274,542	Dec. 1975	434,205
C	1975	25,000	Sept. 1975	25,000
D	1975	50,308	Feb. 1976	50,308
Total		$730,080		$900,453

For project A, the State agency approved the purchase of initial equipment and staff for a facility which was to be built under the construction authority. This proposal, approved during August 1974, was reported as an expenditure on the fiscal year 1974 report even though the final cost data for the construction project was not approved by the State agency until November 1974 and the building was not completed until June 1975.

For project B, the facility submitted three project proposals to the State agency for using funds under the construction authority to acquire a new building. Although the State agency reported expenditures for the facility in fiscal year 1974, the project proposal, which was used to fund the acquisition of the facility's new building, was not submitted by the facility until November 1975; it was approved by the State agency following a site inspection of the proposed building during December 1975 by HEW regional, State agency, and local officials. In a January 24, 1978, financial status report amendment, the Kansas rehabilitation agency reported to RSA that the total funding of $434,205 for this project was charged to the fiscal year 1975 funding allotment.

Florida

The Florida rehabilitation agency processed and approved facility establishment project proposals near the end of the fiscal year; however, the agency generally did not make actual project awards and notify the facilities until the next fiscal year--after the agency completed final accounting for other program expenditures and obligations.

For example, the agency announced project awards included in the fiscal year 1977 expenditure report in January 1978--more than 3 months after the end of fiscal year 1977. A rehabilitation agency official stated that the above procedure was common practice and that in some fiscal years the agency had backdated award letters and related documents to show that they made funding decisions within the fiscal year in which the agency reported the expenditures to RSA. The official said that the Florida agency stopped backdating project award letters in 1976 because they decided that the approval of the project proposals, rather than the announcement of the grant awards, constituted an obligation of funds. The Florida agency director stated that he understood that several States approved establishment projects but did not make official awards pending identification of funds which could not be used in other more direct basic program activities before the close of the fiscal year.

Florida agency officials believed the State's procedure was consistent with the State's policy to use program funds first to provide direct client services. The officials said the procedure was the only practical approach to maximizing the use of program funds available to the Florida agency before the end of the fiscal year, when the State's authority to expend or obligate Federal funds expired. The officials stated that it was impossible to identify basic program funds available for facility improvement and expansion activities before the end of the fiscal year because (1) complete expenditure and obligation data generally was not available until several weeks after the accounting period ended and (2) HEW frequently notified the Florida agency too late in the fiscal year concerning the additional vocational rehabilitation funds made available to the State as a result of HEW's reallotment of unused funds.

Delays in initiating projects awarded near the end of a fiscal year

Several grants in Florida and Kansas which had been awarded near the end of a fiscal year had experienced long delays between the time of project approval and the initiation of the project:

--The Florida agency approved a $1.4 million project under the establishment authority in June 1972 for a 42,000-square-foot expansion of a medical rehabilitation facility. The facility did not sign a construction contract for the expansion work until about

September 1977. Facility officials said that several factors, including changes in design and scope of the project, contributed to the 5-year delay between project approval and award of the construction contract. Facility officials told us in April 1978 that the project's estimated cost had increased to $5.4 million, with establishment funds being supplemented by local bond funds.

--A rehabilitation facility in Kansas received approval from the State agency in fiscal year 1976 for an establishment project which included remodeling, equipment, and initial staffing. The project award of $424,882 was reported to RSA on the fiscal year 1976 financial report. Between August 1976 and July 1977, a number of problems and questions concerning the remodeling activities were discussed between the RSA regional office, the State agency, and the facility officials. As a result the facility was not able to receive a final contract bid until late fiscal year 1977, even though the project was approved in fiscal year 1976. Once agreement was reached, the project was completed by June 1978.

--A construction project to build transitional apartments for the severely disabled was approved at a cost of $710,000 by the Florida agency in June 1974, but it had not been started as of August 1978--over 4 years after award. Facility officials said they had not proceeded with the project because the State agency had not made a firm commitment to support the program when it became operational. In commenting on our report, the secretary of the Florida Department of Health and Rehabilitative Services stated that the grantee is continuing with project implementation. According to the secretary, the State agency does not always have complete control of the progress of the project short of termination for just cause; unavoidable delays have been legitimate and with the concurrence of the district rehabilitation office. The secretary stated that reasonable progress is the only requirement for such projects in regulations for construction funding.

Delays in the initiation of projects resulted not only in increased administrative requirements for State agencies to monitor and account for unexpended obligations but also in the potential loss of services to clients who would have received vocational rehabilitation services from the projects.

CONCLUSIONS

RSA's monitoring of the State agencies' procedures and practices needs to be strengthened. First, RSA needs to strengthen its reporting and administrative requirements for awarding, accounting for, and completing in a timely manner projects to establish or construct rehabilitation facilities. Such requirements should assure that adequate information is developed to provide a sound basis for the Federal monitoring of the States' activities.

Furthermore, RSA, through its regional offices, should insure that the State agencies develop and implement systems which are adequate for controlling the use of Federal and State matching funds and for assisting State agencies with maintaining and improving their administrative practices and procedures. For example, if the four States had developed effective administrative procedures for monitoring project activities through periodic site visits, State rehabilitation agency staff would have been able to routinely identify and correct the questionable activities and numerous irregularities identified during our fieldwork.

RSA also needs to strengthen its monitoring procedures to assure that adequate accounting and fiscal controls are maintained by the State agencies and individual rehabilitation facilities in order to document the award or expenditure of program funds on establishment and construction grant activities. The lack of adequate controls over the reporting of annual financial information by the State agencies has resulted in RSA's use of inaccurate, incomplete, and misleading information on basic program expenditures to establish and construct rehabilitation facilities.

RECOMMENDATIONS TO THE SECRETARY OF HEW

To achieve better control over the use of rehabilitation program resources for establishment and construction activities, we recommend that the Secretary of HEW, direct the Commissioner of RSA to require the regional staff to:

--Provide guidance and leadership to the State rehabilitation agencies to develop and implement procedures and administrative controls to award, account for, and monitor establishment and construction activities. The system established should

provide for the maintenance of adequate accounting procedures and records at both the State agencies and the rehabilitation facilities.

--Periodically monitor the adequacy of the State agencies' procedures and practices to insure the proper use of and control over basic rehabilitation program funds for establishment and construction activities.

Also, we recommend that the Secretary direct the Commissioner of RSA to amend the Federal regulations and guidelines to require the State agencies to

--forward a copy of each approved project application in time for RSA comments before starting a project,

--submit as part of the annual expenditure reports a list of each establishment or construction project with the outstanding balance of the unliquidated obligation,

--designate a specific time period for project completion in the approved award document and require the facility to use the funds within the specified time frame, and

--establish procedures to assure that only valid obligations of Federal funds are made and reported to RSA.

AGENCY COMMENTS

RSA officials generally concurred in our first recommendation to the Secretary and said they had taken or planned to take the following actions:

--RSA plans to emphasize the importance of periodically monitoring the adequacy of State agency's procedures and practices for funding establishment and construction activities. Until the guidelines are issued, RSA plans to recommend that each regional office monitor periodically the adequacy of State agencies' procedures.

--RSA, in conjunction with regional staff (subject to available staff), plans to require State agencies to systematically perform onsite reviews and more closely monitor project activities. This requirement will be formally included in the new program guidelines. The regional office will be given direct responsibility for monitoring States' activities.

--RSA recognizes the need for maintaining adequate accounting procedures and records at both the State agencies and the rehabilitation facilities. RSA plans to initiate an action plan in conjunction with the regional offices and the State agencies to assure that adequate records are maintained. RSA is also developing an information and evaluation system for rehabilitation facilities that will provide for adequate accounting procedures.

Regarding our second recommendation, RSA plans to implement, as part of the action plan to improve overall recordkeeping at the State and regional level, a requirement that State agencies submit an annual list of each establishment or construction project, including the outstanding balance of the unliquidated obligation. Also, RSA is negotiating with the Office of Management and Budget to revise the annual expenditure reports for the vocational rehabilitation program. RSA plans to require (as part of project approval) that projects have a designated time for completion and that funds are used within the required time frame. This requirement will be formally included in the new program guidelines. RSA has established procedures to insure that only valid obligations of Federal funds are made for establishment and construction of rehabilitation facilities; however, steps are needed and will be taken by RSA to assure that these procedures are updated and implemented.

Finally, RSA is sympathetic to the need for State agencies to forward a copy of each approved project application in time for RSA comments before project implementation. However, RSA states that manpower limitations would not allow enough time for Federal comments before approval of all establishment applications. RSA believes that the present system, which requires that project applications be submitted to the regional office for review after projects have been approved but not always before project implementation, has generally worked well. We do not agree that the present system has worked well. We believe that the deficiencies found during our fieldwork in the four States

indicate the need for stronger Federal oversight to reduce the potential for improper interpretation or application of Federal requirements for establishment and construction projects.

STATE COMMENTS

The four States offered the following comments.

Alabama

The director of the Alabama rehabilitation agency stated that the projects in Alabama were adequately monitored by State agency staff, although perhaps not recorded in accordance with the desires of auditors. The director also stated that the agency has been continuously probed on reducing the costs of overhead expenses; the Governor of Alabama demands that the agency reduce its staff. According to the director, State office staff in Alabama would have to be doubled if records were kept and monitoring was done in accordance with our recommendations.

Regarding the use of Federal funds, under the 1973 act and the Federal regulations, the State rehabilitation agency is required to provide enough staff to perform all functions required. These functions include maintaining sufficient accounts and supporting documents to permit an accurate and expeditious determination at any time on the use of Federal vocational rehabilitation program funds. Our recommendations are addressed to strengthening Federal and State compliance with this requirement.

Florida

In commenting on our draft report, the secretary of the Florida Department of Health and Rehabilitative Services stated that the Florida agency had established adequate procedures to monitor project activities. While there have been isolated deficiencies in the past concerning documentary support of monitoring site visits, the Florida agency routinely monitors and has effective procedures to assure that this effort is adequately documented. The secretary noted that deficiencies we identified would be corrected.

Furthermore, the secretary stated that the fiscal controls used by the State agency adequately assure that all grant expenditures are in accordance with the Federal guidelines. However, during meetings with Florida rehabilitation agency officials in May 1978, we discussed the instances

where establishment funding was used for supplies, operating expenses, or replacement equipment (in violation of the Federal requirements) at several of the rehabilitation facilities we visited in Florida, which indicated a need for the State to strengthen its fiscal controls.

The secretary also believes that the Florida agency has maintained adequate records to document the award or expenditure of program funds. The secretary noted that, even though the Florida agency requires all grantees to develop adequate accounting systems and maintain adequate fiscal records, it does not assure grantee compliance. The secretary agreed that some facilities have not fully complied with these requirements and pointed out that the Florida agency intends to assist the facilities to comply; additionally, all grant applications will be reviewed in light of the applicants' ability to meet these requirements.

Regarding projects which were delayed, the secretary pointed out that the RSA guidelines do not prohibit a State agency from implementing a delayed project funded with vocational rehabilitation program funds. The secretary stated that some projects require a longer lead time for implementing than others; these delays are the exception rather than the rule. Finally, the secretary said that corrective action will be taken where indicated to assure that project implementation is timely.

The secretary said that the Florida agency has improved its budget and planning processes to identify available funds for establishment and construction grants in a timely manner; this makes possible the timely obligation of such funds. The secretary further said that past practices, as discussed on pages 52 and 53, no longer characterize the Florida agency's system of obligating Federal grant funds.

The secretary also stated that the Florida agency has essentially complied with the RSA requirement to forward copies of project proposals to the RSA regional office. Contrary to the secretary's statement, RSA regional officials told us on several occasions that the Florida agency had seldom sent copies of project proposals to the RSA regional office during the past 5 years. Nevertheless, the secretary assured compliance with this requirement for future projects.

Kansas

The acting director of vocational rehabilitation generally agreed with our recommendations. The director pointed out that State auditors had done additional work since our fieldwork and that discrepancies found in grants were being corrected. The acting director concluded that the lack of correct and more thorough accounting practices were and are of great concern to the Kansas vocational rehabilitation agency.

Michigan

The interim associate superintendent agreed with our recommendation that RSA should establish a systematic process for transmitting all Federal policy interpretations to RSA regional offices and States promptly. According to the associate superintendent, an earlier installation of a more systematic process may have averted some of the deficiencies found during our review. He also agreed that RSA should provide guidance to the States to assure that adequate procedures and controls are implemented for administering establishment and construction funding.

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